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The President's Daily Brief

December 14, 1974

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FOR THE PRESIDENT ONLY

December 14, 1974

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EGYPT-ISRAEL

Egypt's Foreign Minister Fahmi issued a sharp official response yesterday to recent remarks by Israeli Prime Minister Rabin. The response amounts to a toughening of Egypt's negotiating position.

The Egyptian reaction came in the form of a list of harsh conditions for a "full and final settlement." The conditions include:

--Full Israeli withdrawal from all occupied Arab territories back to "international borders."

--Israel's recognition of the Palestine Liberation Organization as the sole legitimate representative of the Palestinian people and Israeli recognition of Palestinian national rights.

--Either the creation of a democratic state in which Jews, Muslims, and Christians live on an equal footing, or the application of the United Nations Palestine Partition Plan.

--A pledge by Israel to renounce its expansionist policy and another that it will not accept any Jewish immigrants during the next 50 years.

--Israeli compensation to the Palestinians who have lost their property and to the Arab states for damage they suffered during all previous wars.

Fahmi's remarks are a major departure from Cairo's tack of avoiding the issue of a final settlement and concentrating instead on interim steps. Fahmi's statement was pitched in the kind of rhetoric usually voiced only by Arab radicals.

The statement was described as a comment on an interview by Rabin published the same day. The Israeli Prime Minister repeated earlier remarks, which, in effect, called for Egyptian acquiescence in an Israeli strategy to delay a final peace settlement for years. The Egyptians apparently believed

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that they could no longer allow any impression of possible Israeli-Egyptian complicity to go unrefuted.

Although a response to Rabin's remarks was expected, Fahmi's list of Egyptian requirements is so extreme as to suggest that President Sadat intends it to signal a major change in Egypt's attitude toward negotiations with Israel. Sadat has implicitly acknowledged Israel's right to exist within its 1967 borders and is on record as being willing to sign a peace agreement on those terms.

If Fahmi's statement does mark a fundamental shift in Egyptian negotiating strategy, we expect Sadat himself to follow up with a public statement of the position to give it his personal stamp of authority.

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FRANCE

The French have let it be known that they are interested in establishing a new mechanism for promoting closer US-French relations, [redacted]

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The French President is prepared to agree to projects that would provide proof of his intentions

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[redacted] a bilateral commission composed of a dozen high-level officials with two chairmen--presumably at cabinet level--be set up to review a list of possible projects. Because of French domestic political considerations, the idea to create the commission must appear to come from the US side. The Franco-Soviet commission would serve as a model.

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Specific topics suggested for consideration were:

--A compromise on the sale of military aircraft to the four-nation European consortium seeking a replacement for their F-104 aircraft.

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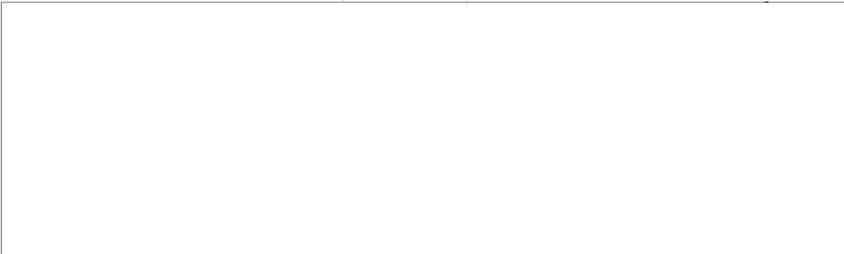
--A formalized exchange of "temporary duty assignments" between officials that would "correct the current situation in which no one in a position of authority in either country has lived for an appreciable length of time in the other."

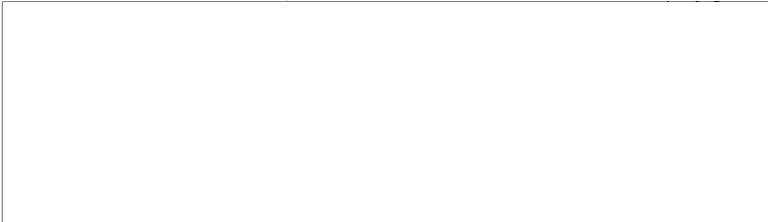
--Joint military exercises 


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Giscard has good reason to be cautious about the domestic political impact of closer ties to the US. The Gaullists and the leftists would be concerned that Paris might be relegated to a permanently subordinate role because of the inherently unequal relationship between France and the US. The concept of a "special" Franco-US relationship, however, would appeal to the Gaullists because this would suggest that France is a key power with which the US feels it must consult.


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OIL PRICES

The oil ministers of the Organization of Petroleum Exporting Countries agreed at their meeting that ended yesterday to replace the present posted price system with a single unified price. The new price will raise the US oil import bill by about \$800 million next year.

Effective January 1, the new average take of OPEC governments for crude oil will be \$10.12. This means that OPEC as a whole has accepted the decision to raise prices made by Persian Gulf oil producers at a meeting in Abu Dhabi last November. The new price will increase the average take of all OPEC members by 38 cents per barrel, or by about 4 percent. This increase is expected to raise the world's oil import bill by about \$4 billion next year.

Iranian Minister of Interior Amouzegar described the new price as a "generous gesture" to allow consumers time to coordinate their positions. He said that the problem of relating oil prices to Western inflation would be taken up later, possibly as part of a producer-consumer dialogue.

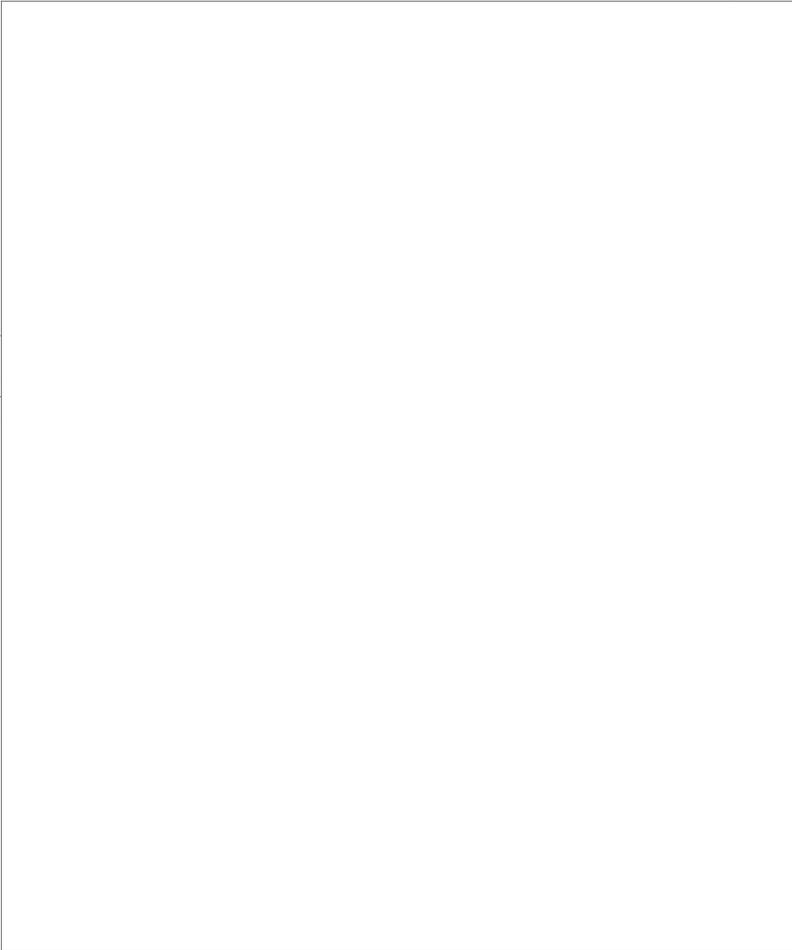
The meeting also decided that OPEC oil and foreign ministers will meet in Algeria on January 24.

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MBFR

East European participants in the force reduction talks expect the Soviets to offer some new and modified proposals when the talks resume next month.

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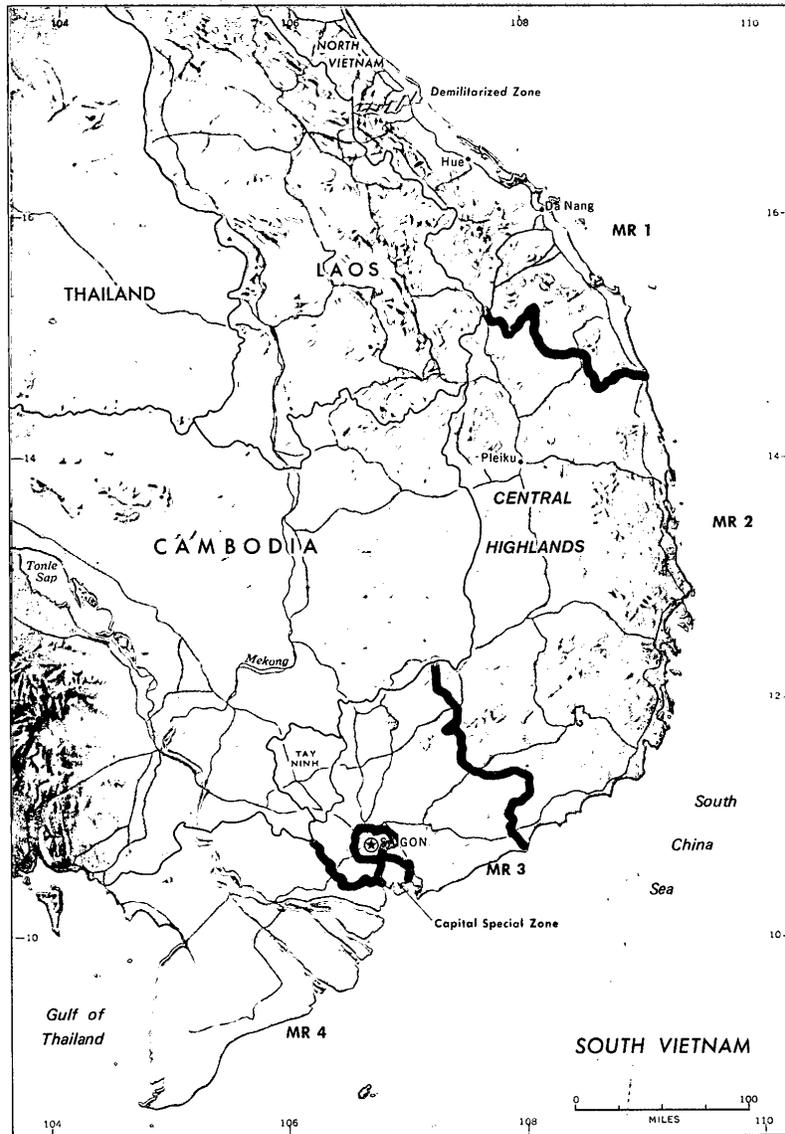
PORTUGAL

The Armed Forces Movement yesterday arrested six prominent businessmen and issued warrants for six more. All were accused of committing "economic sabotage."

Most of the businessmen were associated with one of Portugal's largest banks and the nation's largest resort enterprise. Both concerns have had serious financial problems; they were taken over by the government under laws passed early this month authorizing state intervention in private enterprises that are not "contributing normally" to Portugal's economic development.

The decree laws, which make no distinction between Portuguese and foreign-owned firms, have added new uncertainties to a business community already troubled by a general lack of confidence. In addition, the Armed Forces Movement is scheduled to release shortly a program that calls for a new economic policy favoring the lower income classes. The program is also expected to restrict the role of the private sector. All of this will hasten the flight of private capital from the country.

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SOUTH VIETNAM

The communist dry season campaign, now in its second week, is producing scattered but intense fighting in the southern half of South Vietnam. No major initiatives are expected in the northern provinces for some weeks because of poor fighting weather.

Nearly all the action in the delta has been initiated by communist local forces, but some North Vietnamese mainforce units have become involved. This is particularly true in the northern delta, where local Viet Cong units attempted to screen the infiltration of the communist 5th Division into Military Region 4 from Cambodia. Government reaction forces have moved in to block the incursion and heavy fighting is now under way.

The scope of the first week of the communist campaign is reflected in a sharply increased casualty rate on the government side. The government's less effective territorial forces have borne much of the initial communist attacks, and in the delta these forces have given up chunks of territory to the communists. In Military Region 3, however, these provincial forces have done well enough to allow government commanders to save their regular units for the heavier action expected later.

The current communist campaign appears to be hurting the government's pacification program, particularly in the delta. The communists have forced the relocation of a large number of civilians and interrupted the rice harvest as well as the flow of farm goods to the markets.

Known communist plans call for increased military action in the central provinces, but government operations and troop deployments have probably forced the communists to delay these plans. The government meanwhile has made gains in the northern provinces of the country, including the recapture of important high ground positions south of Hue. This may lead to communist counterattacks in this area.

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BURMA

Burmese security officials have been ordered to round up all those who took part in the riots this week in Rangoon and to follow up with arrests of other potentially troublesome elements, including known criminals, black marketeers, and politicians who oppose the government's program. The government expects 10,000 arrests to be made.

Although Rangoon is generally quiet, the government faces further problems if it cannot soon restore normal economic activity. In the past week, prices for rice and other food items have jumped significantly, some as much as 50 percent. The marginally employed who live hand-to-mouth have been hard hit, and the US embassy believes that renewed disturbances are possible unless the situation improves in the near future.

In the past, the Ne Win government has effectively put down disorders. The events this week, however, represent the broadest outbreak of popular discontent in many years, and, according to the embassy, the populace remains bitter and resentful.

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VENEZUELA

Re-establishment of diplomatic relations with Cuba is imminent; only the specific timing remains in doubt.

President Carlos Andres Perez said last week that he intended to invite Fidel Castro to the Venezuelan-sponsored meeting of Latin American chiefs of state next year in Caracas, and that his government no longer felt bound to wait for affirmative OAS action before recognizing Cuba. Re-establishment of relations will formalize political contacts that already exist. Officials of the two countries have been exchanging visits and reportedly have discussed the sale of Venezuelan petroleum to Cuba, which has already bought Venezuelan commodities.

* * *

At a meeting of six Central American chiefs of state in Caracas this weekend, Venezuela will propose using part of its oil receipts for developmental projects in Central America. This would relieve the Central American countries of some of the balance-of-payments strains resulting from high oil prices.

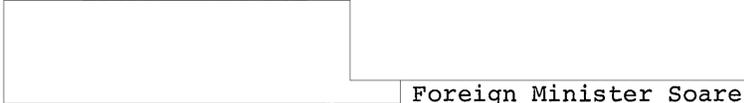
The Venezuelan funds, which could amount to some \$300 million over the next five years, would be considered loans. They would run 20-25 years at 6-8 percent interest with a possible grace period of 5-10 years.

Venezuela also wants to use some of its increased oil revenue to help improve the terms of trade for exporters of other raw materials. For example, Caracas has offered to finance coffee stockpiles for several Central American countries.

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NOTES

Portugal-Angola:

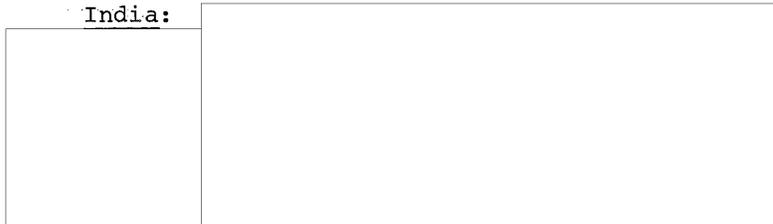


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Foreign Minister Soares is hopeful the conference will ease the long-standing competition among the three groups and pave the way for installation of a transitional government in Angola by early next year. The conference could bog down quickly, however, because Lisbon apparently has not invited another insurgent leader who has a substantial following. Nor have the Portuguese invited any representatives of Angola's white community to participate in the round table talks. The whites, who number about 500,000, could react violently and trigger another round of civil and racial disturbances.

USSR - South Yemen - Somalia: Admiral Gorshkov, deputy minister of defense and commander in chief of the Soviet navy, arrived in Aden on Thursday to begin an official visit--his first--to South Yemen and Somalia. Increased Soviet attention to the Gulf of Aden area is in part related to the anticipated reopening of the Suez Canal. Moscow probably wants to ensure access to port services in the area in the face of the increased commercial competition for these services that will result from the opening.

India:



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Ethiopia: A representative of the International Red Cross committee who visited Haile Selassie on Wednesday found him well-treated and in good physical health. The representative, in a privileged conversation with the US chargé in Addis Ababa, said he was not sure about the former emperor's mental health. Haile Selassie behaved as if he were still emperor and did not answer questions directly; it was not clear whether this resulted from posturing or senility. The representative described as "satisfactory" the health and living conditions of other detained officials of the old regime, whom he also visited.

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